



Puts Accumulate in Leggett

Ticker/Price: LEG (\$39.45)

Analysis:

Leggett & Platt (LEG) another 2,000 August \$40 puts being bought today for \$1.75 to \$1.85 and follows 4,000 bought late yesterday and over 8,000 on 7-9. LEG also has 2,000 August \$40 calls in OI but small dollar-size order. Shares have been weak since February and bouncing back since late May to re-test the 200-day MA this week. The bear flag break under \$37.50 has room back to \$35 and then a major breakdown below the 2018 lows which targets \$25. The \$5.16B company trades 14.4X earnings, 1.17X sales, and 64X FCF with a 4% yield. Their balance sheet is debt-heavy after a deal for ECS last year and they've also slowed shareholder returns as they look to improve their leverage. LEG sees EPS growth of 10.5% in FY20 and slowing to 6.4% in FY21 with revenue growth of 4% annually, down from around 15% this year. Margins remain weak and contracting at an accelerated rate last quarter as costs around steel and plywood increase. LEG expects impacts from tariffs to weigh on their long-term guidance, especially in areas like furniture and mattresses, as they've been raising prices only incrementally so far. Analysts have an average target for shares of \$42. Gabelli downgrading to Hold earlier this year seeing weak end-markets, industrial products over-earning, and questioning the ECS deal. Short interest is 10.1%, the highest levels since 2009 and rising from around 4% in late 2017. Hedge Fund ownership fell 4.5% last quarter. Berkshire Asset Management, Gotham Asset Management, and Silvercrest all notable holders.

Hawk Vision:



Hawk's Perspective: LEG retesting the 200 day downward sloping MA makes this an attractive level to trade it short or with puts.

Confidence Ranking: \$\$